

Proprietary Rates

Program Description

The State Motor Pool operates and maintains a fleet of vehicles available to all state offices and employees who conduct official state business. The State Motor Pool has two basic components: 1) the daily rental fleet; and 2) the out-stationed lease fleet. The daily rental program operates out of the Helena headquarters facility and provides vehicles for short-term use. The leasing program provides vehicles for extended assignment to agencies statewide.

Other Options to Use of the Program

Use of the program is optional to agencies when personnel are required to travel by car for official state business, but is encouraged in the Montana Operations Manual. Other options to use of State Motor Pool vehicles by state employees are: 1) other state-owned vehicles not part of the State Motor Pool fleet; 2) personal vehicles, with authorization provided by the agency director; or 3) vehicles from the private rental agency contract. The Montana Operations Manual encourages use of the program through the reimbursement rate for use of personal vehicles for state business travel that are set \$0.03 per mile lower than the Internal Revenue Services rate unless a State Motor Pool vehicle is not available.

Significant Program Growth

The program has increased from 318 units in fiscal 1994 to 778 in fiscal 2002. During that time, annual mileage increased from 4.1 million to 11.7 million miles. This growth in the number of miles traveled is largely due to the practice of the Office of Budget and Program Planning requiring agencies to lease new vehicles from the State Motor Pool instead of allowing agencies to purchase vehicles directly.

Revenues, Expenses, and Fund Equity

Revenue Description

Revenue is generated through vehicle rental fees and sales of surplus assets. Vehicle rental fees provide the majority -- roughly 94 percent in fiscal year 2002 -- of the revenue for the program. Rental fee revenues are functionally tied to the travel requirements of various user agencies. The program also receives revenues resulting from accident damages reimbursed by private individuals or insurance companies. The amount generally covers the expenditures to repair the damage.

Vehicle rental fees come from two service classes: 1) short-term rentals; and 2) long-term leases. Short-term rentals serve agency personnel located in the Helena area who need to travel via car to other state locations and return to Helena at the culmination of the travel event. Long-term leases serve agencies with personnel housed in offices in Helena and in other parts of the state and who frequently travel as a normal part of their work assignments. Long-term vehicles are not picked up or returned to the State Motor Pool facilities but are typically housed and managed out of agency office locations and only returned to the State Motor Pool facilities for maintenance or reassignment.

Agencies pay for program services with the following SABHRS accounts:

- 62404, In-State State Motor Pool (all classes, short-term rental mileage fee) - \$2.5 million

- 62414, Out-of-State Motor Pool (all classes, short-term rental mileage fee) - \$1,460
- 62470, Motor Pool – Assigned Time (all classes, short-term rental mileage fee) - \$21,518
- 62510, Motor Pool Leased Vehicles (all classes, out-stationed lease vehicles) - \$2.4 million

In fiscal year 2002, customer payments of \$4.9 million were funded from the following fund types:

- 36.6 percent general fund - \$1.8 million
- 38.7 percent state special revenue - \$1.9 million
- 22.6 percent federal special revenue - \$1.1 million
- 2.1 percent all other fund types - \$0.1 million

The program records revenues into the fund using the following accounts:

- 525020, Service Reimbursements - \$4.9 million
- 525021, Equipment Replacement - \$8,800
- 525024, Van Pool - \$242
- 550400, Gains Sale Non-Gen Fix Asset-NB - \$139,661

Expense Description

The State Motor Pool is responsible for expenses associated with the acquisition, repair, maintenance, and routine operating costs for a fleet of 778 vehicles. The program pays all costs directly associated with vehicle operations and all costs that are not directly attributable to measurable vehicle operations, but which are needed to maintain the vehicles in a safe and functional condition. User agencies pay insurance costs associated with employee use of State Motor Pool vehicles, but the program pays insurance costs associated with State Motor Pool facilities and personnel. The program has 6.0 FTE funded through vehicle rental rates. The major cash costs of the program are:

- Autos & Trucks (63103) - \$2.1 million (54.7 percent)
- Gasoline (62216) - \$658,908 (16.8 percent)
- Debt Service (69xxx) - \$458,245 (11.7 percent)
- Personal services (61xxx) - \$204,106 (5.2 percent)
- Miscellaneous repair and maintenance (627xx) - \$192,310 (4.9 percent)
- Insurance & Bonds (62104) - \$162,020 (4.1 percent)

The majority of the costs of the program are indirect costs, as they cannot be trace directly to specific miles driven by State Motor Pool vehicles. Indirect costs are supported by the assigned rates allocated to the seven classes of vehicles. Direct costs, such as gasoline, oil, and oil filters, are supported by the usage rates for all seven classes of vehicles. The allocations of indirect costs and direct costs use the same methodology for all rates to which they apply.

The program uses loans from the Board of Investments (BOI) to fund vehicle purchases. Interest rates on BOI loans are adjusted annually and vary from one purchase cycle to the next. The outstanding loan balance and interest and principal payments have the greatest impacts on motor pool rental rates.

Working Capital Discussion

Rental rates are set to recover sufficient revenue to meet loan principal and interest payments, operating costs, and allow maintenance of no more than a 60-day working capital balance. If the program does not generate sufficient revenue to make interest and principal payments, assets

would have to be sold to satisfy the loan obligations. The program billing and payment cycles support the accumulation of a 60-day working capital balance. User agencies are billed monthly and payments are requested to pay for services by the end of the next month. This allows the program to make monthly expense payments and accumulate adequate working capital to pay quarterly interest payments on the BOI loans and the annual, June, payment on loan principle. The program was not able to attain an adequate working capital level during the base year. The program has included a factor to increase the working capital balance a portion while developing the 2005 biennium rate request.

Fund Equity and Reserve Fund Balance

The program rents vehicles for use by other state government entities. The number of vehicles in the program has grown to where at 778 vehicles it is now nearly 2 ½ times as large as it was in 1994. Because of this growth, the program has needed to borrow funds to purchase new vehicles. As such, the balance sheet for the program has \$14.4 million in equipment assets comprising mostly vehicles, which comprise roughly 87 percent of total assets. The equipment assets are depreciated to nearly 40 percent of their cost for a book value of \$8.9 million financed by \$7.8 million of long-term debt. The resultant fund equity is \$2.1 million or 20.7 percent of total assets.

Rate Explanation

The State Motor Pool rental rates are based on a two-tiered rate structure. Users pay a usage rate and an assigned rate. The usage rate is charged for actual miles driven and allows the program to recover costs directly related to the operation of the vehicle, such as repair labor and parts, fuel, lubricants, tires, and tubes. The assigned rate allows the program to cover fixed costs associated with state ownership, such as insurance, principal and interest payments on BOI loans, depreciation, and other indirect expenses. The two-tiered rate structure first used in the 2003 biennium provides: 1) more stable revenue to make loan payments and other cost obligations; and 2) equity among all vehicles classes so that one vehicle class does not subsidize another vehicle class.

Historical mileages are used along with user estimates to forecast the total miles expected to be driven by each vehicle class. The prorated share of each class to the total mileage of the entire vehicle fleet is used to allocate the proportionate share of direct and indirect costs to usage and assigned rates for each class of vehicles. To determine the per hour assigned rate, the indirect costs for the class are divided by 2080 (work-hours per year) and then by the number of vehicles in each class to determine the hourly assigned rate for each vehicle in the class. To determine the per-mile usage rate, the direct costs allocated to the class are then divided by the total estimated miles for the class.

The rates using the two-tiered structure are applied as follows for the two components of the State Motor Pool:

Daily rental:

Cost (per occurrence) = (HR x AR) + (AM x MR),

Out-stationed lease:

Cost (annual) = (2080 x AR) + (AM x MR),

where:

HR = number of hours the vehicle was used (maximum of 8 hours for each day of use, including weekends);

AR = per hour assigned rate;

AM = actual miles traveled
MR = per mile operated rate.

For the 2005 biennium, the State Motor Pool requests legislative approval of the rates shown in Table 1.

Table 1 - State Motor Pool Base and 2005 Biennium Requested Rates							
Class	Description	Fiscal Year 2002		Fiscal Year 2004		Fiscal Year 2005	
		Assigned (per hr)	Usage (per mile)	Assigned (per hr)	Usage (per mile)	Assigned (per hr)	Usage (per mile)
02	Small Utilities	\$1.597	\$0.022	\$1.678	\$0.125	\$1.687	\$0.135
04	Large Utilities	2.116	0.056	2.123	0.125	2.132	0.135
06	Mid-Size Compact	1.501	0.054	1.567	0.085	1.576	0.095
07	Small Pickups	1.270	0.030	1.345	0.131	1.534	0.141
11	Large Pickups	1.832	0.056	2.012	0.131	2.021	0.141
12	Van, All Types	1.449	0.071	1.543	0.131	1.553	0.141

Significant Present Law

PL1: Vehicle Acquisition - The program would replace 111 vehicles in fiscal year 2004 and 110 vehicles in fiscal year 2005. Units to be replaced will have reached their anticipated economic life at the time of replacement. The executive also recommends increasing the out-stationed vehicle fleet by 20 vehicles in fiscal year 2004 and by 19 vehicles in fiscal year 2005 to satisfy statewide vehicle needs for long-term leases in agencies instead of each agency individually purchasing and managing new vehicles. The program estimates this acquisition would costs \$2.34 million in fiscal year 2004 and \$2.28 million in fiscal year 2005. Costs include vehicle acquisition and the additional operating costs associated with the new vehicles.

Rate Impact: This would have the following impacts on the base year rates of the program:

PL1: Vehicle Acquisition – Rate Impact				
Class	Fiscal Year 2004		Fiscal Year 2005	
	Assigned	Usage	Assigned	Usage
02	\$0.06	(\$0.007)	\$0.055	(\$0.007)
04	0.05	(0.006)	0.045	(0.005)
06	0.045	(0.004)	0.048	(0.005)
07	0.05	(0.005)	0.045	(0.005)
11	0.04	(0.003)	0.035	(0.003)
12	No impact	No impact	No impact	No impact

PL2: Overtime for Motor Pool - The executive requests overtime and differential pay at the base level plus associated benefits.

Rate Impact: This would not have an impact on rates, but is illustrated as an example of an adjustment the agency may have previously included for development of appropriation levels. If this type of adjustment contributed to rate increases above the base, perhaps because of significantly higher levels than in the base year, it would be appropriate to include one for the increase otherwise it wouldn't need to be included.